

Report of the auditor-general to the North West provincial legislature and the council on the Mamusa Local Municipality

Report on the audit of the financial statements

Disclaimer of opinion

1. I was engaged to audit the financial statements of the Mamusa Local Municipality set out on pages xx to xx, which comprise of the statement of financial position as at 30 June 2018, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. I do not express an opinion on the financial statements of the municipality. Because of the significance of the matters described in the basis for disclaimer of opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment due to inadequate accounting records. I was unable to confirm these balances by alternative means. Consequently, I was unable to determine whether any adjustments relating to property, plant and equipment of R355 562 467 (2017: R370 297 923) disclosed in note 3 or the depreciation expense of R26 728 564 (2017: R20 960 368) disclosed in note 32 to the financial statements were necessary.

Consumer debtors

4. I was unable to obtain sufficient appropriate audit evidence for consumer debtors as the municipality did not maintain an adequate system of internal controls to account for consumer debtors. In addition, the municipality did not base its assessment of impairment on objective evidence as required by GRAP 104, *Financial instruments* but instead followed a blanket approach when impairing consumer debtors. It was impracticable to determine the resultant misstatement to the provision for impairment. I was unable to confirm these balances by alternative means. Consequently, I was unable to determine whether any adjustments relating to consumer debtors of R59 591 120 (2017: R48 484 863) or the bad debts written off expense of R3 896 456 (2017: R3 003 741) disclosed in notes 10 and 29 respectively, to the financial statements were necessary.

Receivables from exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for receivables from exchange transactions as the municipality did not maintain accurate and complete records. I could not

confirm these balances by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from exchange transactions of R5 844 208 (2017: R3 426 342) disclosed in note 7 to the financial statements.

Cash and cash equivalents

6. I was unable to obtain sufficient appropriate audit evidence for cash and cash equivalents as the municipality did not maintain accurate and complete records. I could not confirm these balances by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to cash and cash equivalents of R10 289 443 (2017: R6 643 582) disclosed in note 11 to the financial statements.

Inventories

7. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for inventories as the municipality did not maintain accurate and complete records. I could not confirm this restatement by alternative means. In addition, the municipality did not review the current replacement cost at the reporting date of inventories held for distribution in accordance with GRAP 12, *Inventories*. I was unable to determine the impact on the balance as it was impracticable to do so. Consequently, I was unable to determine whether any adjustment was necessary to inventories of R50 012 767 (2017: R50 191 939) disclosed in note 6 of the financial statements.

Value added tax (VAT)

8. I was unable to obtain sufficient appropriate audit evidence for the VAT receivable and payable balances as the municipality did not maintain accurate and complete records. I could not confirm these balances by alternative means. Consequently, I was unable to determine whether any adjustments relating to the VAT receivable of R35 019 468 or the VAT payable of R33 480 255 disclosed in notes 9 and 16 respectively, to the financial statements were necessary.

Payables from exchange transactions

9. I was unable to obtain sufficient appropriate audit evidence for payables from exchange transactions as the municipality did not maintain accurate and complete records. I could not confirm these balances by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to payables from exchange transactions of R118 350 128 (2017: R97 630 421) disclosed in note 15 to the financial statements.

Unspent conditional grants and receipts

10. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for unspent conditional grants and receipts as the municipality did not maintain accurate and complete records. I could not confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the unspent conditional grants and receipts corresponding balance of R7 732 755 disclosed in note 13 to the financial statements.

Revenue from exchange transactions

11. I was unable to obtain sufficient appropriate audit evidence for revenue from service charges as the municipality did not maintain adequate records of meter readings. I could also not confirm that the correct tariffs were used. I could not confirm the revenue by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to revenue from service charges of R58 363 202 (2017: R52 562 655) disclosed in note 21 to the financial statements.



Revenue from non-exchange transactions

12. I was unable to obtain sufficient appropriate audit evidence for revenue from property rates as the municipality did not maintain an adequate and updated valuation roll. I could not confirm the revenue by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to property rates of R10 061 381 (2017: R12 053 788) disclosed in note 20 to the financial statements.

Expenditure

13. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figures for employee related costs, finance cost, contracted services and general expenses as the municipality did not maintain accurate and complete records. I could not confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment relating to the corresponding figures for employee cost of R57 883 479, finance cost of R6 680 753 and general expenses of R14 910 800 in notes 27, 34 and 26 respectively, to the financial statements were necessary.
14. I was unable to obtain sufficient appropriate audit evidence for the indigent subsidy expense as the municipality did not maintain adequate accounting records. I was unable to confirm this expenses by alternative means. Consequently, I was unable to determine whether any adjustment relating to the indigent subsidy expense of R24 431 959 (2017: R10 903 742) in the financial statements was necessary.

Accumulated surplus

15. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for accumulated surplus as the municipality did not maintain accurate and complete records of the restatement. I was unable to confirm the restatement by alternative means. In addition, there were arithmetical errors on the statement of changes in net assets relating to accumulated surplus. Consequently, I was unable to determine whether any adjustment were necessary to the accumulated surplus of R348 240 875 (2017: R365 898 741) in the statement of financial position and the statement of changes in net assets.

Related parties

16. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for related parties. The restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to the related parties balance of R7 948 321 disclosed in note 42 to the financial statements.

Irregular expenditure

17. Section 125 of the MFMA requires the disclosure of irregular expenditure incurred. The municipality made payments in contravention with the supply chain management requirements which were not included in irregular expenditure disclosed. As the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the resultant understatement of irregular expenditure as per note 48 to the financial statements. In addition, I was unable to obtain sufficient appropriate audit evidence to confirm that awards of R11 249 109 were made in terms of the supply chain management requirements. The municipality's records did not permit the application of alternative procedures. Consequently, I was unable to determine whether any adjustment to irregular expenditure R152 918 038 (2017: 146 229 306) disclosed in note 48 to the financial statements was necessary.



Unauthorised expenditure

18. The municipality incorrectly calculated unauthorised expenditure in the current year resulting from overspending of the budget, resulting in the current year unauthorised expenditure being understated. In addition, transactions have been incorrectly classified as unauthorised expenditure. As the municipality did not quantify the full extent of the misstatement, it was impracticable to determine the resultant misstatement of unauthorised expenditure. In addition, I was unable to obtain sufficient appropriate audit evidence for the restated opening balance of unauthorised expenditure, as the supporting information was not provided. I was unable to confirm the opening balance by alternative means. Consequently, I was unable to determine whether any further adjustment was necessary to the unauthorised expenditure stated at R207 800 439 (2017: R201 969 252) in note 46 to the financial statements.

Commitments

19. I was unable to obtain sufficient appropriate audit evidence for commitments, as the municipality did not maintain accurate and complete records of the contractual information used to determine commitments. I could not confirm these commitments by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to commitments of R18 773 686 (2017: R13 319 357) disclosed in note 40 to the financial statements.

Prior period error

20. The municipality did not disclose all corrections made as a result of prior period errors in notes to the financial statements as required by GRAP 3, *Accounting policies, changes in accounting estimates and errors*. The nature and the amount of the correction for each financial statement item affected, and the amount of the correction at the beginning of the earliest previous period were not disclosed. In addition, I was unable to obtain sufficient appropriate audit evidence for the prior period errors disclosed. I was unable to confirm the prior period errors by alternative means. Consequently, I was unable to determine whether any further adjustment relating to the prior period errors disclosure in notes 43 and 44 to the financial statements were necessary.

Material losses

21. The municipality did not disclose material losses relating to electricity and water as required by section 125(2)(d)(i) of the MFMA. I was unable to quantify the resultant omitted disclosure as it was impracticable to do so.

Going concern

22. The municipality did not disclose material uncertainties that may cast significant doubt on its ability to continue as a going concern as required by GRAP 1, *Presentation of Financial Statements*. The municipality's current liabilities exceed its current assets by R10 206 838 as at 30 June 2018. In addition, the municipality incurred a deficit for the year of 17 657 860.

Emphasis of matter

23. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Fruitless and wasteful expenditure

24. As disclosed in note 47 to the financial statements, fruitless and wasteful expenditure of R10 269 849 was incurred in the current year and fruitless and wasteful expenditure of R16 396 135 from prior years have not yet been dealt with in accordance with section 32 of the MFMA.



Other matter

25. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

26. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

27. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA standards of GRAP and the requirements of the MFMA and the DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

28. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

29. My responsibility is to conduct an audit of the financial statements in accordance with International Standards on Auditing (ISAs) and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

30. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit of the [consolidated and separate financial statements. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.

Report on the audit of the annual performance report

Introduction and scope

31. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report. I was engaged to perform procedures to raise findings but not to gather evidence to express assurance.
32. I was engaged to evaluate the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected development priority presented in the annual performance report of the municipality for the year ended 30 June 2018:



Development priority	Pages in the annual performance report
Development priority 2 – Basic Service Delivery	x – x

33. The material findings in respect of the usefulness and reliability of the selected development priorities are as follows:

Development priority 2 – Basic Service Delivery

Various strategic objectives and indicators

34. The following strategic objectives and indicators were approved in the service delivery budget implementation plan (SDBIP). However, these strategic objectives and indicators were not reported in the annual performance report.

Strategic objective	Indicator
To provide quality basic services and infrastructure	Number of households with access to basic level of water
	Number of households with access to basic level of electricity
	Number of households with access to sanitation
	% reduction of sewer spillages
	Km's of roads and storm water constructed
	Number of high mast lights constructed
	Construction of access road
	Number of grave yards fenced
To ensure good governance, financial viability and optimal institutional transformation	
To fight poverty and to build clean, healthy, safe and sustainable communities	
To effectively do revenue collection to ensure sound financial matters	
To foster participatory development and Batho Pele	

Various indicators

35. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of the indicators listed in the table below. This was due to a lack of technical indicator descriptions, proper performance management systems and processes, formal standard operating procedures and documented systems descriptions that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicators by alternative means. In addition, the measures taken to improve performance against targets were not included in the annual performance report.



Consequently, I was unable to determine whether any adjustments were required to the reported achievements of the indicators listed below.

Indicator	Target	Reported achievement
% of storm water drainage system maintained	100 % storm water drainage system unblocked by 30 June 2018	40%
Km of streets bladed	1050 km's of streets bladed by 30 June 2018	0

Number of households with access to basic level of solid waste removal

36. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of the indicator due to a lack of technical indicator descriptions, proper performance management systems and processes, formal standard operating procedures and documented systems descriptions that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements of 19286 as reported in the annual performance report.

95% for green and blue drop status obtained

37. The indicator and target approved in the SDBIP was "60% for Green and Blue status obtained by target date". However, the indicator and target reported in the annual performance report was "95% for green and blue drops status obtained". The indicator was changed without obtaining the necessary approval. In addition, I was unable to obtain sufficient appropriate audit evidence to support the reported achievement due to a lack of technical indicator descriptions, proper performance management systems and processes, formal standard operating procedures and documented systems descriptions that predetermined how the achievement would be measured, monitored and reported. I was unable to confirm the reported achievement of the indicators by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of "Not achieved".

Number of new townships established

38. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement for this indicator. This was due to the achievement reported in the annual performance report not being specific. In addition, I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement or reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of "Not achieved" or the reported measures taken to improve performance of "To appoint consultants for the Professional Town Planning services" as reported in the annual performance report.

Number of community cemeteries maintained

39. I was unable to obtain sufficient appropriate audit evidence to support the reported achievement of the indicator due to a lack of technical indicator descriptions, proper performance management systems and processes, formal standard operating procedures and documented systems descriptions that predetermined how the achievement would be measured, monitored and reported. In addition, I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance due to limitations placed on the scope of my work. I was unable to confirm the reported achievement or reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of "Not Achieved. There is no consistency in terms maintenance i.e. Quarterly Actuals differs" or the reported measures



taken to improve performance of “Procured tools for CWP and EPWP who are assisting with cleaning of Cemeteries. The CWP work program finalized” as reported in the annual performance report.

Other matter

40. I draw attention to the matter below.

Achievement of planned targets

41. Refer to the annual performance report on pages xx to xx for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 34 to 39 of this report.

Report on audit of compliance with legislation

Introduction and scope

42. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
43. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements, performance and annual report

44. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were not adequately corrected and the supporting records could not be provided subsequently, which resulted in the financial statements receiving a disclaimer audit opinion.
45. I was unable to obtain sufficient appropriate audit evidence that the 2016-17 annual report was made public after being tabled in council, as required by section 127(5)(a) of the MFMA.

Asset management

46. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.

Procurement and contract management

47. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as the municipality did not maintain adequate records. Similar limitations were also reported in the prior year when related documents were destroyed in a fire .
48. Some of the goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulations 17(a) and (c). Similar non-compliance was also reported in the prior year.
49. Some of the quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).
50. Sufficient appropriate audit evidence could not be obtained that contracts were awarded only to bidders who submitted a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).



51. Sufficient appropriate audit evidence could not be obtained that quotations were only accepted from bidders whose tax matters had been declared by the South African Revenue Service to be in order, as required by SCM regulation 43.

Human resource management

52. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).

53. The municipal manager and senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

Expenditure management

54. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

55. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the irregular expenditure could not be quantified as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by an inadequate supply chain management system.

56. Reasonable steps were not taken to prevent fruitless and wasteful expenditure of R10 269 849, as disclosed in note 47 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties due to late or non-payment of payables.

57. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The full extent of the unauthorised expenditure could not be quantified as indicated in the basis for qualification paragraph.

Consequence management

58. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

Strategic planning and performance management

59. A performance management system was not adopted, as required by regulation 8 of the Municipal Planning and Performance Management regulations.

Internal control deficiencies

60. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

- The municipality does not have an adequate system to ensure the safekeeping of documentation that supports the annual financial statements and the annual performance report.
- There is a lack of capacity to enable the municipality to prepare financial statements and an annual performance report that are free from material misstatements.
- There is a lack of internal review mechanisms to ensure that misstatements are detected and corrected. This resulted in material misstatements as reported in the basis for the



disclaimer of opinion. Further, this also resulted in important performance indicators not being reported in the annual performance report.

- There is a lack of oversight from the audit committee as it did not adequately review the financial statements and the annual performance report prior to submission for audit.
- There is an over-reliance on consultants without adequate internal review mechanisms to ensure that annual financial statements they prepare are not materially misstated.
- The municipality does not have an adequate compliance monitoring system in place to prevent non-compliance and to detect and correct it if it does happen. This has resulted in several non-compliance findings.

AUDITOR GENERAL

Potchefstroom

30 November 2018



Auditing to build public confidence

